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regarding

***“Counternarcotics Strategies in Latin America”***

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## INTRODUCTION

Chairman Burton, Ranking Member Engel, and distinguished members of the subcommittee, on behalf of the Drug Enforcement Administration's (DEA) Administrator, Karen P. Tandy, I want to thank you for your continued support of the men and women of DEA, as well as for the opportunity to testify today on the drug trafficking situation in Latin America and DEA's bilateral operations and approach to disrupt and dismantle organizations responsible for the drug trade.

## LATIN AMERICAN DRUG PRODUCTION THREAT ASSESSMENT

Seven of the 20 countries designated by the President as major drug transit or major illicit drug-producing nations are located in Latin America—Bolivia, Brazil, Colombia, Ecuador, Paraguay, Peru, and Venezuela. The strategic deployment of approximately 38 percent of DEA's foreign workforce to Latin America is testament to the important role the region plays in feeding America's appetite for drugs.

Latin America is the source of all cocaine, most of the heroin, and significant amounts of marijuana consumed in the United States. Bolivia, Colombia, and Peru remain the primary centers of cocaine production, although DEA remains concerned about the production potential of other countries in the region. Cocaine continues to be produced in Bolivia, Colombia, and Peru in vast quantities to supply the United States' and world's demand. Non-existent 10 years ago, heroin produced in Colombia now supplies over 50 percent of the United States' heroin market.

### *Bolivia*

Bolivia's coca cultivation expanded from 24,600 hectares in 2004 to 26,500 hectares in 2005 -- an increase of 8 percent. That total hectareage equates to 70 metric tons of pure cocaine base that could be manufactured. Although a modest increase is noted, it represents the fourth year in a row of increased cultivation. More coca means that more cocaine can be produced. DEA's interdiction efforts directly complement USG support for Bolivian coca eradication operations in the Chapare region. Bolivia's primary counternarcotics challenge, however, remains the Yungas region. It is by far the largest coca growing area in Bolivia, with severe topography, and a long history of traditional coca cultivation and resistance to eradication. Alternative development activities in the area will be critical to strengthening local support for reduction of illegal coca; but even when combined with effective interdiction, cannot counter the long-term trend line in Yungas without the eradication component.

For several years we have observed Mexican drug traffickers purchasing Peruvian cocaine suggesting that Mexican drug syndicates are attempting to supplement their Colombian cocaine sources by expanding their contacts with the Peruvian traffickers. Likewise, some Mexican traffickers also have increased their presence in Bolivia and are

exploring their options in the Bolivian cocaine market. Bolivia's persistent political unrest, systemic political corruption, nonexistent border controls, and lack of aerial radar coverage are all contributing strategic factors that magnify the drug threat from Bolivia.

### *Colombia*

Colombia currently produces around 90 percent of the cocaine HCl reaching the United States, with an average purity of 84 percent at the wholesale level. While United States Government (USG) cocaine production estimates for 2005 in Colombia will not be available until early April, Colombia potentially produced 430 metric tons of pure cocaine in 2004 -- 7 percent decline from the 460 metric tons of pure cocaine potentially produced in Colombia during 2003. Colombia's 2004 potential cocaine production represents approximately 67 percent of the world's potential cocaine production, which is a dramatic trend, considering Colombia only produced about 25 percent of the world's cocaine base as recently as 1995. Accordingly, Colombian traffickers have become less dependent on Peruvian or Bolivian cocaine base sources of supply. Through intelligence sharing, DEA supports the eradication efforts coordinated by the State Department throughout Latin America, and in particular Colombia, which are critical components to stamping out drug production in this region.

Not unexpectedly, Colombian drug trafficking organizations (DTOs) remain the dominant players in the international cocaine trade as they are increasingly more self-sufficient in cocaine base production, have a firm grip on Central American and Caribbean smuggling routes, and dominate the wholesale cocaine markets in the eastern United States and in Europe. Colombian opium poppy cultivation and heroin production have also increased significantly in recent years, and nearly all Colombian heroin is believed to be destined for the United States' drug market. Colombia is also a stable source of marijuana -- with approximately 5,000 hectares cultivated annually. In recent years, Colombia has also become a major supplier of marijuana to the European market.

### *Peru*

Peru was once the largest worldwide cultivator of illicit coca and producer of cocaine base. As a result of effective and sustained interdiction and eradication efforts, Peru is now a distant second to Colombia. For 2005, Peru's potential pure cocaine base production was estimated to be 165 metric tons -- a 14 percent increase from 2004 production levels. Additionally, USG surveys indicate an increase of approximately 38 percent in cultivated hectares from 27,500 in 2004 to 38,000 in 2005. This increase includes approximately 4,000 hectares not assessed in 2004.

## **POLITICAL DEVELOPMENTS IN LATIN AMERICA**

Recent political developments in Venezuela and Bolivia have created special challenges for DEA operations in Latin America. Venezuela serves as a major transit country for Colombian cocaine. While some cocaine is transported into the country via a variety of air, river, and land-based smuggling routes, the predominant shipping method

relies upon vehicles to transport cocaine along traditional land routes. Primarily destined for markets in the United States and Europe, the cocaine leaves the country either by commercial sea freight, non-commercial ships (including “go-fast boats”), or airplanes.

In the past year, DEA in Caracas has been in a precarious situation. Some press reports in Venezuela portrayed DEA negatively, and trusted Venezuelan counterparts, who had good working relationships with DEA, were replaced with employees considered more loyal to President Hugo Chavez and who have a negative history with DEA. For example, President Chavez appointed General Morgado as the head of the Anti-Narcotics unit of the National Guard. Shortly thereafter, General Morgado disbanded the DEA Vetted Units manned by personnel from the Venezuelan National Guard and Cuerpo de Investigaciones, Criminalistas Penales y Cientificas (CICPC).

Despite these handicaps, DEA has managed to work within the parameters established by the Government of Venezuela and maintains a presence in the country. DEA has contributed intelligence information related to narcotics trafficking to numerous other DEA offices and in light of the restrictive environment, has still managed to retain a significant influence in investigating narcotics trafficking in this region.

DEA, through the U.S. State Department, is currently reviewing a previously established working agreement with the Government of Venezuela, in which progress has been made. DEA has been working with the U.S. Department of State to create a document that is acceptable to both governments. It is hoped that a mutual agreement will be reached in the near term, which will return DEA agents to their normal status in Venezuela.

The December 18, 2005, election of Evo Morales of the Movement Toward Socialism (MAS) Party as Bolivia’s president also poses new challenges for DEA activities. President Morales rose to power as the leader of the coca growers union, and has established a high-profile opposition to the U.S funded eradication of coca crops. The Morales Administration is currently faced with balancing the need to address cocalero coca farmers’ constituency demands to grow and/or de-penalize coca and also meet its counter narcotics obligations to the international community, specifically coca eradication.

But despite some trepidation about what the change in Administration might mean to DEA operations, today the DEA continues to operate bilaterally with its Bolivian law enforcement counterparts. The relationship with the Morales Administration is in its infancy, and it is too early to predict what impact the change in Administration will have on DEA’s operations in Bolivia.

## **BILATERAL LAW ENFORCEMENT - ATTACKING THE DRUG TRADE**

Generically, DTOs are similar in structure and have similar operational needs to legitimate businesses, with both models sharing the goal of deriving profit. Law enforcement disruption at any level within these organizations and denial of support

services, such as raw materials and communications, negatively impact their profit margin. DEA is uniquely positioned to attack these vulnerabilities in Latin America.

### *Disruption and Dismantlement*

The leaders of the most significant international DTOs threatening the United States have been identified on the Consolidated Priority Organization Target (CPOT) list. Today, 38 of the 44 organizations on the CPOT list are based in Latin America. DEA works closely with host nation counterparts to aggressively pursue, locate, apprehend, and extradite the senior leadership of CPOTs to the United States.

While terrorist groups are involved in the drug trade, the trade continues to be dominated downstream from the cocaine production level by traditional DTOs. The DEA does not specifically target terrorist groups, except those that are involved as major drug trafficking or money laundering organizations. Today, Colombia's main guerrilla and paramilitary groups benefit and derive significant organizational proceeds from the drug trade, as well as other illegal activities such as kidnapping, extortion, and robbery. The clearest connections between drug trafficking and terrorist organizations exist in Colombia. The United States Department of State has officially designated the *Fuerzas Armadas Revolucionarias de Colombia* (Revolutionary Armed Forces of Colombia or FARC), the *Ejército de Liberación Nacional* (National Liberation Army or ELN), and the *Autodefensas Unidas de Colombia* (United Self-Defense Groups of Colombia or AUC) as Foreign Terrorist Organizations, all of which are based in Colombia.

DEA continues to make great strides against the FARC, as exemplified by the Federal indictment which was handed down on March 1, 2006, in the United States District Court for the District of Columbia, naming 50 leaders of the FARC as defendants. Three of those charged are presently in custody in Colombia, and the United States will seek extradition of these individuals. In addition, the United States Department of State has also offered rewards ranging from \$5 million each for the top seven leaders to \$2.5 million each for 17 of the second-tier leaders, for information leading to their capture. It is well-documented by DEA that individual FARC fronts are involved in multi-levels of the drug trade, ranging from coca cultivation and cocaine production, to taxation and providing security at processing laboratories and clandestine airstrips, to international cocaine distribution and transportation. This indictment of the FARC is the first of its kind, where the entire leadership of a Foreign Terrorist Organization was shown to be involved in narcotics distribution to the United States. I believe this further demonstrates DEA's resolve to combat narcotics distribution at the source and to contribute significantly to our nation's war on terrorism.

### *Interdiction – Transit Zone*

One of DEA's strategies is to incapacitate major international DTOs by disrupting and dismantling supporting organizations which provide transportation services. DEA has initiated several extremely successful multi-agency operations to attack the vulnerabilities of the transportation services of these organizations. These programs also

disrupt the supply of drugs to the United States and result in multi-ton seizures through targeted operations.

- DEA and JIATF-South initiated the *Drug Flow Prevention Strategy* in 2005. Operations in support of this strategy are conducted in Mexico and Central and Latin American transit zones and consist of innovative, interconnected, multi-agency host country operations designed to disrupt the flow of drugs, money, and chemicals between the source zones and the United States. This strategy also is supported by the Federal Bureau of Investigation, Internal Revenue Service, several members of the Intelligence Community, agencies of the Department of Homeland Security, and the Department of Defense.
- Operation FIREWALL and Operation PANAMA EXPRESS combine investigative and intelligence resources to interdict the flow of cocaine from the northern coast of Colombia to the United States:
  - Operation FIREWALL was initiated by the DEA Cartagena Resident Office in conjunction with the Cartagena Tactical Analysis Team and JIATF-South. It is estimated that the major syndicates use several hundred go-fast boats, each capable of transporting between 1.5 and 2 metric tons of cocaine. This program works in tandem with Operation PANAMA EXPRESS and other maritime programs that target CPOTs, as well as Colombian transportation syndicates operating in the Caribbean corridors. Since the July 2003 commencement of Operation FIREWALL, the program has resulted in the seizure in excess of 29.2 metric tons of cocaine. Additionally, Operation FIREWALL provided assistance in Operation PANAMA EXPRESS seizures of 33.2 metric tons, and other foreign countries in the seizure of 25.7 metric tons of cocaine.
  - Operation PANAMA EXPRESS, an Organized Crime Drug Enforcement Task Force (OCDETF) initiative known as PANEX, consists of agents and analysts from DEA, Federal Bureau of Investigation, Immigration and Customs Enforcement, the United States Coast Guard, and the U.S. Attorney's Office in the Middle District of Florida. This operation has targeted the highest level traffickers responsible for the financing, production, transportation, and distribution of cocaine throughout North America and Europe. Since the February 2000 implementation of Operation PANEX, 356 metric tons of cocaine has been seized, 109.2 metric tons of cocaine have been scuttled, and 1,107 individuals have been arrested. As of December 31, 2005, these two highly successful interdiction programs have resulted in combined total seizures of 410.9 metric tons of cocaine.

As with counternarcotics operations within the host nations, interdiction operations in the transit zone are contingent upon cooperative agreements. At present, no maritime agreement exists between the United States and the Governments of Ecuador, Mexico, or Peru. Because we have no agreements with these countries, the United States can only board vessels flagged by these nations on the high seas on a case-by-case basis,.

Also, because we have no agreements with these countries, it is virtually impossible for the United States to obtain jurisdiction over the vessel and its contents, which is subject to the jurisdiction of the host nation. Rest assured that the Colombian syndicates exploit this vulnerability.

Over the years, Colombian traffickers have exploited the Caribbean corridor, as the region provides them with increased flexibility and anonymity because of its vast geographic territory, numerous law enforcement jurisdictions, and fragmented investigative resources. With few exceptions (notably Costa Rica and Panama), the countries in Central America are ill-equipped to handle the threat of drug trafficking. Many Central American countries are experiencing weak economies, and scarce resources are oftentimes allocated for other pressing problems. Police and other agencies are often under-funded and receive inadequate training. Consequently, some officials are susceptible to the enormous bribes that drug traffickers can offer. The corrupting influence of illicit drug trafficking organizations on the governmental institutions of Central America significantly increases the difficulties of mounting successful drug interdiction efforts.

#### *Precursor Chemical Control*

The denial of raw products and chemicals has proven to be a significant disruptive force against DTOs. We know that controlled chemicals are camouflaged and clandestinely imported into Colombia, and many chemicals are also diverted by a small number of employees at large chemical companies in Colombia.

Unfortunately, despite positive law enforcement initiatives and growing cooperation between the United States and Colombian Governments, traffickers are still able to obtain vast quantities of essential chemicals. The policing of the illegal diversion of raw products and precursor chemicals within Central and South America is challenging because of the different chemical laws in each country. What may be legal in one country may be illegal in another. This vulnerability is being exploited by the traffickers.

However, through Operations *Seis Fronteras* and ALL-INCLUSIVE, initiatives that promote cooperation among South and Central American nations to interdict the movement of essential precursor chemicals to drug production areas, the participating countries have achieved successful collateral and multilateral-sharing of chemical information. There has been noted multi-lateral success which would not have been achieved without these operations and the multi-lateral agreements.

#### *Financial Investigations*

DEA's overall strategic approach is based on the recognition that the major drug traffickers, operating both internationally and domestically, have insulated themselves from the drug distribution networks but remain closely linked to the proceeds of their trade. DEA is mounting several innovative approaches aimed at targeting the flow of

money from the streets of America to the leadership of major DTOs. In FY 2005, DEA's asset and currency seizures, excluding the value of drug seizures, were \$1.4 billion. In addition, we also made more high-value seizures (those over \$1 million) in FY 2005 than in FY 2004. DEA also denied drug traffickers \$1.9 billion in revenue in FY 2005, which includes \$1.4 billion in seized assets and \$477 million in drug seizures.

Americans spend nearly \$65 billion every year on illicit drugs. In its 2005 World Drug Report, the United Nations Office on Drugs and Crime estimated illicit drug revenues generated in the United States, Canada, and Mexico during 2003 at \$142 billion. A significant portion of these drug revenues return to the source countries in Latin America primarily through two money laundering methods -- the Black Market Peso Exchange ("BMPE") and bulk currency smuggling.

The BMPE is currently the largest known money laundering system in the Western Hemisphere. Using a "parallel exchange" system, drug traffickers are able to sell drug dollars to brokers in exchange for pesos. Brokers then sell the drug dollars to Colombian merchants who purchase goods in the United States and elsewhere. By purchasing drug dollars on the Black Market and not through Colombia's regulated exchange system, the importers avoid Colombian taxes and tariffs, thereby gaining significant profit and a competitive advantage over those who import legally.

Stronger banking laws have forced some DTOs to change their money laundering methods. The transportation and smuggling of drug dollars out of the United States in bulk form is now the primary initial method of money laundering, with the currency being entered into banking systems in countries with weaker banking regulations. In particular, billions of USD are smuggled across our border with Mexico, the majority ultimately destined for Colombian drug trafficking syndicates.

To combat this threat, DEA has established its Bulk Currency Initiative, with the goals of providing training for all law enforcement officers involved in bulk currency interdiction and investigations; increased coordination between DEA and its federal, state, and local counterparts; centralization of intelligence; and the analysis and linkage to ongoing investigations.

DEA continues to provide assistance to its Latin American host nation counterparts through interagency coordination and bilateral agreements to combat money laundering and terrorist financing. We also continue to support foreign-based money laundering investigations conducted by specialized units of our Latin American law enforcement counterparts. Arab DTOs based in the Tri-border Area of Latin America (where the borders of Argentina, Brazil, and Paraguay meet) have been using the region as the central point for cocaine smuggling operations to Brazil, Europe, and the Middle East. These organizations have ties to radical Islamic terrorist groups such as *Hezbollah* and it is feared that these groups are reaping large monetary benefits from trafficking activities. It is important to note that this is not an emerging threat *per se*, but one that has existed since the late 1980s or early 1990s. After the terrorist attacks of September 11, 2001, governments the world over began to focus more attention on what was



happening in the Tri-border Area in order to determine the severity of the drug trafficking emanating from the region and whether or not Islamic terrorist groups were benefiting financially.

Investigations into these groups as part of DEA's *Drug Flow Prevention Strategy* reveal Arab DTOs are exporting cocaine from South America to Europe and the Middle East. There are numerous reports of cocaine proceeds entering the coffers of Islamic Radical Groups (IRG) such as *Hezbollah* and *Hamas* in Europe and the Middle East. With the immense profit margin of cocaine sold in the European and Middle East markets, an initial investment of less than \$6,000 USD for one kilogram of cocaine in Latin America, can yield a minimum of \$30,000 USD in Spain, up to \$110,000 USD in Hungary and Israel, and up to \$150,000 USD in Saudi Arabia, United Arab Emirates, or Oman. The danger of Arab DTO's and IRG's profiting from the lucrative cocaine trade can lead to an unlimited source of cheap and easy revenue to carry out potential terrorist acts.

DEA's primary efforts against these groups will focus on the identification, targeting, disruption, and dismantlement of Arab DTO's in the Tri-Border Area. We are also attempting to identify the cocaine sources of supply from the Andean Ridge, identify any arms-for-drugs nexus, and identify and track IRG networks in Latin America, Europe and the Middle East, which are reaping the financial benefits from the lucrative European and Middle East cocaine markets. Key to these efforts will be to attack the financial narcotic nexus.

Progress will be made towards disrupting and dismantling the Arab DTOs only through a concerted effort that harnesses the assets of Federal law enforcement, host-national law enforcement, and the Intelligence Community in targeting both the drug and money laundering aspects of drug trafficking in the Tri-border Area. Strengthening host-nation judicial capabilities will also be essential in convicting and jailing those involved in Tri-Border drug trafficking activities.

## **CONCLUSION**

DEA's investigative efforts in Latin America will continue to be directed against the major international trafficking organizations and their facilitators at every juncture in their operations—from the cultivation and production of drugs in foreign countries, their passage through the transit zone, and their eventual distribution on the streets of our nation's communities. We will also direct our efforts against those affiliates who supply precursor and essential chemicals and provide financial services to these organizations.

The longstanding bilateral law enforcement relationships in Latin America have proven to be key to DEA's success. Bringing to the criminal and civil justice system of the United States, or any other competent jurisdiction, those organizations and principal members of organizations involved in the growing, manufacture, or distribution of controlled substances appearing in or destined for illicit traffic in the United States will remain the core of our focus. Formalized agreements necessary for bilateral working

relationships and non-politicization of one of the world's common endeavors—the elimination of the illicit drug trade—will bring the United States and the nations of Latin America closer to this objective.